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Chaos in the grain trades; statements on the
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on agriculture on April 23-24, 1946, by out-
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trades and exchanges. With recommendations for
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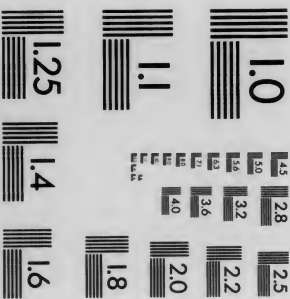
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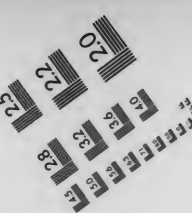
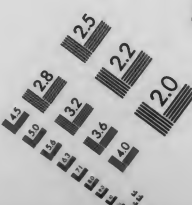
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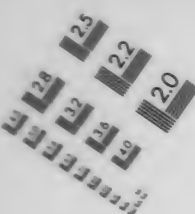
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CHAOS IN THE GRAIN TRADES.

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Statements on the World Grain Crisis
Before the Senate Committee on Agriculture
on April 23-24, 1946

By Outstanding Representatives
of Grain and Milling Trades and Exchanges



*With Recommendations for Correction of Black Market
Conditions and Restoration of Free Markets*



Presented at Hearings Arranged by
The National Association of Commodity Exchanges
and Allied Trades, Inc.

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THE CRISIS AND THE REMEDY

The chaos existing in the grain markets and trades at the time of a world grain crisis, as the result of Government controls, was formally presented to Congress on April 23-24, 1946 in evidence marshalled by the National Association of Commodity Exchanges and Allied Trades.

Seven outstanding representatives of the grain and milling trades and commodity markets appeared on those dates before the Senate Committee on Agriculture and urged elimination of price ceilings on new crop grains as an essential step in restoring free markets and in ending black markets.

For many months this Association has been in the forefront in behalf of the grain trades in an effort to alleviate conditions that resulted from the recent succession of Government orders under OPA controls. In December 1944 the Association organized a Special Grain Committee for the purpose of developing a program to be presented under Association sponsorship to the Secretary of Agriculture. As a result of this program, important recommendations have been made in Congressional and Administrative quarters.

Vice-president McClintock, as Chairman of the Grain Committee, appeared before the House of Representatives Special Committee to Investigate Food Shortages on March 13, 1946 and set forth the Association's position.

At that time we urged the correction of distortions in prices between grains which have caused critical wastages and shortages of supplies, just at the time when this country has made huge export commitments to aid a starving world.

It has been recognized throughout, however, that all such actions were but palliatives. Nothing but a complete change of policy that would return the flow of distribution to normal channels would save one of the most desperate situations that has ever existed in grain history—with the grain trades helpless under rampant black markets of inconceivable proportions.

Conditions under price controls were out of hand. No solution but the wiping out of unworkable price controls offered hope.

THIS ASSOCIATION SOUGHT AND OBTAINED A MANDATE FROM THE GRAIN TRADES TO PREPARE THE CASE FOR PRESENTATION TO CONGRESS, URGING THE ELIMINATION OF PRICE CONTROLS ON NEW CROP GRAINS.

As a result, the Association undertook to marshal evidence from all of the most important segments of the grain and milling trades and arranged for its presentation before the Senate Committee on Agriculture. The full statements of the witnesses at the Committee hearings appear on the following pages.

J. A. HIGGONS, JR.,
Executive Vice-President
National Association of Commodity Exchanges
and Allied Trades, Inc.

STATEMENT BY J. O. McCLINTOCK

Chairman, Grain Committee, and Vice President
of National Association of Commodity Exchanges
and Allied Trades, Inc.
(April 23, 1946)

My name is J. O. McClintock. For more than thirty years my experience in the grain business has been in acquiring supplies from producing areas and distributing these supplies into channels of distribution and consumption. My own business is with the Continental Grain Company of Chicago, Ill. I am also Vice-President of the Chicago Board of Trade, a Vice-President of the National Association of Commodity Exchanges and Allied Trades, Inc., and Chairman of the Association's Grain Committee. I appear before you in the latter capacity.

From my years of experience with grain, I am firmly convinced that a crisis such as exists today in the lack of grain supplies can be caused by only one of two conditions: (1) an adequate supply of grain is not being produced, or (2) the supplies that had been produced are being improperly distributed.

It is the second condition we face today, despite the efforts of farmers aided by a bountiful nature. There have been produced in this country, during the last four years, total grain crops exceeding the quantities produced during any other four-year period in our country's history. Therefore, we cannot reach any other conclusion but that we are guilty of improper distribution in a most flagrant degree.

In addition to the record production of grain during the last four years, we had on hand exceedingly large surpluses of wheat and corn produced prior to the plentiful 1942-45 period.

Those experienced in the distribution of grain supplies under the sound rules of supply and demand are utterly amazed at the decimation of grain supplies that has taken place under the reckless rules of artificial distribution created by agencies of government. It is this artificial distribution that is primarily responsible for the crisis we now face.

Before going into detailed reasons for my convictions as to the way in which artificial controls are causing improper distribution of grain, let me first emphasize the all-important step necessary to prevent the grain crisis from becoming even more serious. It is the elimination of price ceilings on all grains in any extension of the Price Stabilization Act.

Unless this is done, and grain now flowing in abnormal channels for livestock feeding is diverted to human consumption, it is difficult to foresee how the government's humanitarian plans to provide grain for a starving world can be met, and at the same time assure that our own people will have sufficient grain for food.

Restore the laws of supply and demand and it will not be necessary for the President to appeal to farmers to turn loose the grain they are now holding.

Probably the most serious single factor that has contributed to this present shortage of wheat has been the depletion of stocks of this cereal due to the unnatural drain on supplies for livestock feeding purposes. This drain on wheat for unnatural feeding has, in turn, been caused by an abnormal movement of corn.

Corn is not only restrained price-wise, in its historical relationship to other feed grains, but also in its relationship to ceilings on livestock. When you consider that a normal corn crop exceeds in bushels the combined normal crops of all other field grains, you will realize its basic importance in our overall food supply. By tampering artificially with corn prices, you are trifling with the one grain crop that will create price and distribution confusion—not only in other grains, but in animal and poultry supplies as well.

Recalling that eighty percent, or more, of all corn produced is fed to animals within the areas of production, it is understandable that when corn, as a raw material, is arbitrarily fixed at a low price, and products of corn (livestock) at a much higher relative price level, only one result can be expected. The Office of Price Administration, in defiance of price history, fixed a ceiling on corn at approximately thirty cents per bushel under ceilings of all related commodities. Thus the stage was set for today's food and feed crisis.

I would like to discuss the situation existing in corn in further detail, as I believe that a correction of this situation is a step in a solution of the entire grain problem. Let me repeat some of the facts given to the Special House Committee Investigating the Food Shortage.

In the first place, it has been a gross error to use the so-called parity values as a basis for determining ceilings on grain. The parity concept reflects a condition which existed during the 1909-1914 period. The influences which might have determined the related values of grain thirty-five years ago have, in fact, small bearing on the factors which have determined these relationships ever since, as I will endeavor to show. I would like specifically to consider the relationship between corn and oats.

Examination shows that during the period selected for establishing

parity values, July 1, 1909 to July 1, 1914, on the average, corn did sell substantially below the price of oats on a per ton basis. That was during the period when the horse was the primary factor used in growing the crops of the nation and moving them to market and the demand for oats was at its height. The trend toward mechanization made itself felt immediately. During no successive five year period within the next twenty-five years did corn sell on an average as low as oats, on a per ton basis.

During the period of 1914-1919, corn sold at an average of more than six dollars a ton over oats. During the period of 1919 to 1924, while the premium declined, the price of corn still averaged above the price of oats. During the period of 1924 to 1929, corn sold at an average two dollars and seventy-five cents per ton above the price of oats. This premium again declined during the period of 1929 to 1934 but, however, corn prices averaged higher than those for oats. During the period of 1934 to 1939, and this period reflects conditions ruling immediately prior to the war, corn sold at an average of three and one-half dollars per ton higher than oats.

Elementary background understanding of conditions that caused certain relationships in grain values thirty-five years ago, as compared to conditions which have governed relationships in recent years, should have been sufficient to warn those responsible for determining price ceiling levels that parity relationships had little in common with realistic market relationships on a historic basis.

Such knowledge, if possessed, was disregarded, for when it came time to fix ceilings on various grains, corn was finally fixed at a ceiling level of approximately eight and one-half dollars per ton under that for oats. This, I repeat, was done in defiance of the market history of a quarter of a century. Here you witness the beginnings of conflicts that arise when the untried personal judgment of a few men is substituted for realities.

This action represented a distortion of the ceiling price values between corn and oats of approximately twelve dollars per ton. Twelve dollars per ton is approximately thirty-three cents per bushel on corn. This means that corn was under-priced, as against oats, thirty-three cents per bushel.

Being aware of this situation, it is little wonder that the farmer resisted, and still resists, selling corn through orthodox channels to the market.

But this is not all that was done by those responsible for determining price ceiling levels, which has created the situation that obtains today with shortages and prospective shortages of grains. One bad

situation, created by artificiality, led to the imposition of still other artificial measures, which made the first situation worse. Be it noted that the distortion of corn is still the crux of the matter.

As has been established, parity level values were adhered to quite religiously when ceiling prices on corn were determined. The parity concept, however, was completely ignored when ceilings on livestock were determined. It is still being ignored today.

Livestock, which furnishes our meat supply, is mainly the finished product of grain. By totally ignoring the parity concept for livestock, by fixing ceilings very substantially higher than parity, a second maladjustment was created which distorts the natural movement of grain from normal channels to the feed lot in excessive quantities. Corn which is worth \$1.19 per bushel in the market in Chicago, is bringing approximately \$1.45 cents per bushel "on the hoof."

There are thus set up three choices for the farmer: (1) to feed his corn to livestock; (2) to sell his corn at approximately thirty cents per bushel under its intrinsic value and historical price relationship; and (3) to become a patron of the black market. In addition to passage of actual bonus money, black market operations in the form of subterfuges on weights, grade evasions and substitutions, and all manner of varied devices, have amounted to many millions of dollars. They are still going on.

We were advised in the beginning that the disparity between corn and livestock ceilings was created purposely, to increase the meat supply. The price of livestock in the open market was high at the time ceilings were applied. To have followed the parity concept in the establishment of livestock ceilings would have required a very substantial price reduction from market values then prevailing.

When ceilings were established, parity on hogs was twelve dollars per hundred pounds, at Chicago. But, the open market price was from fourteen dollars and eighty-five cents to fifteen dollars per hundred. The ceiling established was at fourteen dollars and seventy-five cents per hundred pounds at Chicago.

Passing by any of the many assertions which have been made as to why this ceiling was decided upon, it can be said that whatever the reason in the beginning, there is no justification for a continuance of this maladjustment.

The effect of all of the above was to start in motion one of the most aggravated vicious circles in recent commercial history, which has led directly over a period to the dire situation under review facing us in wheat today. Another government agency enters the picture, the Commodity Credit Corporation.

Livestock populations soared. Understandably, sufficient corn was not available to support them. The Commodity Credit Corporation, which has legal authority to engage in the buying and selling of grain, stepped in at this juncture and indulged in artificial distribution and channeled immense supplies of wheat into animal consumption at bargain prices. This was all done by means of the government agency absorbing any loss involved between the market price for wheat and the reduced price for which it was sold for animal feeding.

Wheat, which had a ceiling of approximately sixty dollars per ton, Chicago, was pumped into animal feed channels in staggering amounts, at, or near, corn ceiling prices of approximately forty-one and a half dollars per ton. Here, gentlemen, is where your wheat went that you are seeking today to export in accordance with our humanitarian commitments.

It seemed not enough that the feeder had a decided advantage in feeding ceiling-price corn to capture rewards by ceiling prices on livestock, but justification was apparently found to invite the animal population of this country into our dining rooms to partake of the human grain (wheat) at an induced consideration.

When you consider that out of a normal production of corn, wheat and oats, which are the principal food and feed grains produced in this country, the animal and poultry population will without special inducement consume approximately eighty per cent of such production, while human and other uses consume approximately twenty per cent, you will realize that the maladjustment existing between corn and livestock ceilings, and the practice of supplying wheat at artificial value, offer sufficient inducement for livestock and poultry to consume a disproportionate share of the food and feed grains produced in this country.

It is necessary for us to determine whether or not we wish to have all of the grain produced in this country consumed by the animal and poultry population by a continuation of the practices referred to, or whether we reestablish equality by disposing of artificial forces.

I wish to emphasize with all of the force at my command that all of the problems discussed above would automatically and immediately be taken care of by the free price system. You cannot tamper with this system without getting into trouble.

It is not the purpose of my testimony to malign the integrity of those administering governmental agencies. I believe that their undertaking—the circumvention of the law of supply and demand—and prices stemming therefrom were doomed by economic impossibilities. The presence of the black market, which is an expression of supply and demand, supports this contention. We have a choice of obtaining

distribution of grains through black markets, with all their attendant evils, or through legitimate and more effective methods of the established grain trade. In either case the price determined by supply and demand will prevail.

The purpose of this testimony is to suggest to the Congress that it substitute legitimacy for lawlessness (which now prevails in connection with the price controls on grain) by denying the Administrator of the Price Stabilization Act authority to fix ceiling prices on grain, beginning with the respective maturity and movement of separate grains harvested in 1946 and thereafter.

The wheat order, known as the certificate plan, gave recognition to the merits of the free price system by borrowing from this system, the advantage obtainable to the producer, under free competitive price determination, and presenting it to him as a hope he might realize, in the event of a ceiling increase, or an increase in values from any cause. This proposal was ineffective from the standpoint of moving wheat off the farms, because the order left authority for determining a subsequent price increase in possession of bureaucracy. An order to grant benefits of a subsequent free market would have had quite different results.

We witness further recognition of price value to obtain supplies in the recent offer to grant a thirty cent per bushel bonus to farmers, who deliver wheat and corn by May 25th. It is peculiar thinking, however, that justifies a conclusion that realities can be satisfied by submitting to fundamentals today, and denying them tomorrow. Even if this thirty cent bonus is temporarily helpful, the net result will be the accentuation of the black market following the bonus period.

There are many reasons advanced in opposition to freeing price controls on grain. One such argument is that rising prices will work a hardship on the consuming public. Testimony by others will likely disclose some enlightenment on that subject. There is one example which relates to this feature that stands out as a denial to the claim that any price rise—reasonably expected to result from lifting controls—would seriously threaten the welfare of any consumer.

To keep the cost of flour down, the government is paying the miller a thirty-one and a half cent per bushel subsidy on wheat used to produce flour. Propaganda tells of the tremendous saving realized by the consuming public, by virtue of this subsidy. However, when placed under observation, it is determined this subsidy results in saving to a single individual of one dollar and fifteen cents per year, or to a family of four, a saving of less than five dollars per year. That would be a

very small contribution to aid in the disposition of a device which is being used to kid the American public. Subsidies are vicious because they are deceitful, and furthermore, we who rely on calculations of simple arithmetic, believe the subsidy dollar much more inflationary than the price dollar, arguments to the contrary notwithstanding.

If price controls on grains are not eliminated by Congress, it will amount to an approval of the outrageous practices that agencies of control have imposed upon our people and which have resulted in bringing us face to face with food shortages. It will be an endorsement of the hocus-pocus ideology, that we witness in practice under the guise of national security, while in reality many of such practices amount to the extension of favors to some at the expense of the many.

Failure to eliminate these controls endorses the practices that have developed and fostered black markets in America's most basic industry—agriculture. If any respectability, whatever, exists in today's black markets we can be assured it will not remain long. It is only a question of time until rural America—our farmers—will get a taste of real black market practices, those used by professionals, relying on high-jacking and shotgun methods of persuasion to secure supplies. Nothing but elimination of price ceilings and reestablishing free markets will prevent this.

On the other hand, elimination of price ceilings on grain will also correct maladjustments in the distribution of supplies, largely responsible for the predicament in which we find ourselves. Elimination of price controls will return distribution to trade channels, whose record justifies the confidence of producers and consumers alike. Elimination of price ceilings will give to the producers in this country their rightful opportunity to capture the rich rewards to which our economy entitles them. The American grain farmer, especially the farmer producing corn for market, has been outraged by the low prices imposed by control agencies on his commodity. I wish to emphasize again, that it was the disregard of fundamentals, relating to corn, by control agencies that led to much of the difficulties we now face.

Surely no one will claim that black market operations do not exist. I would like to stress that these black market operations are the ruling forces that are prevailing in corn distribution today. They are ruling to such an extent, that the government itself has just decided to compete with the black market forces by offering a bonus of thirty cents per bushel, above the price the legitimate trade people are permitted to pay producers.

Congress can cure black market operations in grain overnight, and at the same time, arrest the practices that are causing many official

headaches in Washington today. This can be done by restoring the law of supply and demand—the right of free production and distribution—and thus serving notice of confidence in the underlying honesty and strength of our people and our economy, rather than new emphasis on artificial controls. Elimination of price ceilings is the immediate answer to the food crisis.

STATEMENT BY EDWARD H. MIRICK

Vice President, Pillsbury Mills, Inc.

Minneapolis, Minn.

(April 23, 1946)

My name is Edward H. Mirick. I reside in Minneapolis, Minnesota. I am Vice President and Director of Pillsbury Mills, Inc. The grain operations of our company are my direct responsibility. Pillsbury Mills, Inc., is the second largest flour milling concern in the milling industry, owning and operating 11 flour mills, 9 feed mills, and 2 soybean processing plants, all scattered from Buffalo, New York, to the Pacific Coast. Our gross sales for the fiscal year ending May 31, 1945 amounted to \$140,014,922, as reported in our last annual statement.

It is not my purpose to attempt to enter into a discussion of economics for the simple reason that I am not an economist. It is, however, my desire to make a plea to your committee for free and open markets in commodities, such plea being based on my experience of some 40 years in the grain and milling business. Based on the assumption, which I believe to be a fair one, that each one of us believes in the competitive system, it necessarily follows that we believe in free and open markets. I know of no other way to arrive at the proper price of a commodity except by the method of free and open markets in which all parties interested are free to express their opinions backed by their money. It is my firm belief that a price arrived at in that manner will reflect the proper value. On the other hand, I am convinced that no special group of people in government employ, or outside of government, can possibly set a price which is just and fair to all concerned. To state the proposition in another way, arbitrary price fixing cannot possibly be handled properly nor justly.

At this point I desire to assure you that I have no criticism whatever of the various actions taken by our government to control commodity prices and commodity distribution in time of war. Remembering very distinctly the problems which arose during World War No. 1, and keeping in mind those same problems which were with us during the recent war, it is almost self-evident to me that government controls were imperative. With the coming of peace, however, government controls, and with them such subsidies as may have been granted in connection with such controls, should be eliminated as soon as reasonably possible.

A brief statement of the background of conditions leading up to

the present situation in the milling industry should be in order at this time. The chaos which now exists in the milling industry is absolutely without precedent. At no time in the history of milling in the United States have conditions been as unbelievably bad as they are at present. To begin with, we are forced to work under ceiling prices. It is illegal to pay more than a specified price for wheat, and in view of the fact that the wheat grower is not satisfied with the price, we are unable to procure the supplies necessary to run our mills. Up to the last very few years, wheat has not been fed to animals to any great extent. It is very likely that during the present crop year, which ends June 30, 1946, 300 to 325 million bushels of wheat will have been fed to animals. Because of the excess feeding, millers have been handicapped very materially in the purchase of wheat, and as a result, the industry as a whole has probably not to exceed 10 to 15 days' supply of wheat ahead, which is a very low figure indeed. It is true that a very large percentage of the wheat now on farms is in the hard spring wheat area consisting principally of North Dakota, South Dakota, and Montana, where the feeding of animals is not as great as in other areas. However, the farmers in general are reluctant to part with their wheat, as they seem convinced that higher prices will prevail in the near future, and in addition to that, they are not in need of money and would rather hold wheat in a bin than money in a bank.

The Chamber of Commerce of the United States recently took the position that ceiling prices with the exception of those on rents, should be abolished not later than October 31, 1946. Pillsbury Mills, Inc. concurs in that action taken by the Chamber of Commerce of the United States, and I should like to testify at this time with particular reference to commodity prices and in favor of the removal of ceilings and subsidies not later than October 31, 1946.

The removal of ceilings and subsidies, as outlined above, would naturally be followed by resumption of free and open trading in all commodity markets, including both commodity markets trading in futures and also commodity markets trading in the cash article.

By mid-summer of 1946 grain crops will be coming to market, and while I believe that the resumption of free and open trading would result in a temporary flurry of higher prices, I am equally convinced that when such trading has furnished an opportunity for full expression of opinion as to price levels of commodities, it will be found that prices will not be abnormally higher than they are at present. Arbitrary fixing of prices by government in time of peace is entirely contrary to our way of life, and should be abolished at the first opportunity.

Gross margins in the flour milling industry are small compared to the gross margins existing in most other processing industries. (a) Figures recently published by the National City Bank of New York show that for the year 1944-45—1017 leading manufacturing concerns, covering a very wide field, reported a percentage of 3.9% of net income after taxes compared to sales. The Millers National Federation reports figures covering sixty flour milling concerns, a representative cross section of the industry, for the years 1939-43, a period when hedging facilities were available to the millers. These figures show a percentage of net income after taxes to sales of 2.33%.

There are various reasons for this showing by flour millers, one of the principal ones being that flour millers have been able to utilize the services offered by commodity exchanges where trading in futures contracts is carried on. I should add here that because of fixed prices and government controls, trading in futures has been practically suspended for some time. As a result of the use of the facilities of the grain futures market, my company, as well as practically every other flour milling company, has been able to keep itself "hedged on the market" as it is termed, and avoid speculation in wheat. As a general thing 50% of a wheat crop moves to market from the farms during the first four months of the crop year. During those four months the flour miller finds it necessary to accumulate those kinds of wheat necessary for the manufacture of the particular product which he mills, and often finds it necessary to own considerably more wheat than that necessary to fill his flour contracts. In other words, during the early months of the crop movement season the miller must carry the market risk on considerable quantities of wheat. Without the facilities of the futures markets, the risk just described would be so great as to preclude the accumulation of sufficient quantities of wheat to carry on his business properly. However, with the facilities of the futures markets, the miller can sell for future delivery all his long position wheat pending the time several months hence, when he can make sales of flour, at which time the contracts for future delivery can be bought back on the open market. The above process is known as "hedging" and enables the miller to avoid speculating on the market.

My object in going into the above details is to lay a foundation for the statement that were the miller compelled to accumulate wheat without having available to him hedging facilities, which in effect grant him insurance against price declines, he would be obliged to exact a greater margin of profit, in order to cover his risks, or go out of business.

The futures contract as carried on in commodity exchanges supervised by the United States Department of Agriculture is a bona fide legal contract which must be carried out. Many of those who do not favor trading in futures contracts are under the impression that such contracts are not legal, nor are they binding. The facts are that our courts have given full approval to such transactions, and as a matter of fact they are just as binding as a contract entered into for the transfer of a piece of real estate at a future date.

There is another subject in connection with wheat prices and bread prices which I would like to call to the attention of the committee. A misapprehension seems to exist in the minds of many people with reference to the influence which the price of flour exerts on the price of a loaf of bread. First of all, it should be borne in mind that the cost of the flour used in the baking of a loaf of bread is only a comparatively small part of the cost of the loaf itself. In addition to the cost of the flour must be added the cost of many other ingredients, and also the cost of the labor necessary to produce and deliver the loaf of bread.

Considerable discussion has taken place recently with reference to the possibility of an advance in wheat prices, either in the form of an advance in the OPA ceiling price of wheat, or an advance in wheat prices should the market be thrown open and the market price of wheat be established on a higher level. I am making no effort to forecast what, if anything, will take place to increase the price of wheat, but in order to illustrate the point which I am trying to make, would like to point out to you how much an increase of 50¢ a bushel in the price of wheat would, in itself, influence the price of a 1-pound loaf of bread. The increase of 50¢ per bushel just mentioned is an arbitrary figure for illustration purposes only.

For all practical purposes, 100 pounds of flour will produce 150 1-pound loaves of bread. Again for all practical purposes, 2.3 bushels of wheat are required for the manufacture of 100 pounds of flour. On this basis, the material cost of 100 pounds of flour at 50¢ a bushel for the wheat would be \$1.15. Dividing \$1.15 by 150 (the number of loaves which can be produced from 100 pounds of flour) we find that the additional cost per loaf of bread amounts to slightly over $\frac{3}{4}$ ¢ per loaf. It can be seen readily that any foreseeable advance in the price of wheat would reflect less than 1¢ per pound loaf in the cost of bread.

A recent investigation conducted by our company at a number of representative points showed that at the retail price of 10¢ per

pound loaf today, the flour cost per pound was approximately 2.2¢, or slightly over 20% of the retail price of the bread.

To summarize my testimony:

Government price controls of agricultural commodities, while necessary in time of war, are very detrimental to our civilian economy in time of peace, and should be abolished at the opportune time in the near future. October 31, 1946, by which time most grains, except corn, will have moved to market in considerable volume, seems to me to be the proper date.

The chaos now existing in the milling industry is without precedent. May 1st will see a large percentage of the milling capacity of the country shut down and idle for lack of wheat.

Farmers are refusing to sell wheat, which is not surprising in view of the news coming out of Washington daily, indicating the possibility of higher prices soon.

Free and open markets have been proved to be the best known method of establishing prices which result in the movement of commodities to market.

STATEMENT BY ED MORGANSTERN

President, Robinson Milling Company
Salina, Kansas
(April 23, 1946)

My name is Ed Morganstern. I am President of the Robinson Milling Company with offices and headquarters in Salina, Kansas. The Robinson Milling Company operates a flour mill at Salina and thirty country elevators in northwestern Kansas. I am likewise interested in affiliated companies—the Kansas Elevator Company, operators of a terminal elevator at Topeka, Kansas; and twenty-eight country elevators and the Morganstern-Pyle Grain Company, operators of sixteen country elevators. I also own three elevators outright in this same general area which consists of thirty-five counties. These counties produced 384 million bushels of wheat in the years 1940 to 1944, inclusive, or forty-five percent of the total Kansas production of 836 million bushels in that five year period.

During my sixteen years in these activities I have devoted my entire time to operating elevators owned by the Robinson Milling Company, supervising my own and collaborating with my affiliated companies in their operations. I spend much of my time in the communities served by our elevators so that I may always have first-hand knowledge of growing conditions, marketing problems, and opinions and reactions of farmers. I feel, therefore, that I can present accurate and complete information on present-day conditions in the Kansas wheat belt and how the failure of government agencies to understand and cope with these conditions is creating such a disturbing situation in the nation's effort to bring relief to the starving people of Europe and to provide adequate food for our own people. From my general knowledge of the trade, I feel that conditions in Kansas are typical of conditions in all other grain areas.

Wars and their aftermath have always brought higher wheat prices. Recent warnings issued daily by government agencies regarding shortages, starvation in much of the world, relief needs and possible rationing of bread and flour in the United States all tend to encourage the farmers in their hope and belief that grain ceilings will be removed and free markets restored.

Free markets will restore a proper relationship between grains. Wheat growers will then deliver wheat for human consumption and secure animal feeds for their livestock. In the interest of the great responsibility we have assumed toward alleviating human misery, I

cannot urge too strongly that action be taken immediately for removal of all restrictions on free markets. When this is done, unnatural marketings will cease and farmers will be quick to select their own basis of sale—a right highly prized by them.

I should like to deal, at this time, with the psychological position of the farmer. Some of the recent actions of government could scarcely be improved upon if they had been deliberately designed to induce the farmer to hold his grain.

The farmer is a business man. I have dealt with farmers throughout my life. They know basically that, in times of inflation, goods not money—are valuable. For the farmers to have survived, they must necessarily know how to separate the wheat from the chaff.

The farmers are told specifically by government that their grain is worth more than OPA price ceilings. They are invited to "lend" their grain to the government and be given the privilege of getting a price on it anytime between now and March 1, 1947. They are offered a bonus of thirty cents per bushel to send it to market between now and May 25.

A more recent example. In February, 1946, the OPA announced that, as of that time, grain ceilings would not be raised. After that the Commodity Credit Corporation notified all farmers that unredeemed wheat on which loans had been made would be called by March 1. Within a few days thereafter, the ceilings on wheat were raised three cents a bushel. The result of such tactics is confusion, black markets and a scarcity of grain where it is now most needed.

Wheat farmers can be divided into three groups:

1. Those who haul their crops to market at harvest time for immediate sale.
2. Those who store either on their own premises or in country grain elevators or both and sell when the market is satisfactory.
3. Those who store grain on their own premises, same to be sold when markets are attractive and a certain percentage to always be held in reserve until the oncoming or new crop is assured.

Group one has sold. Groups two and three still hold substantial quantities for disposition. They are reluctant to move these crops until we again have free markets. Since the Kansas wheat farmer has only one crop to market annually, he must dispose of it judiciously if he is to withstand the many vicissitudes involved in Kansas farming.

Kansas farmers have suffered much from crop failures, drought years and dust storms. With these adversities fresh in mind, they are

more determined than ever to provide against lean years by making the most of bountiful crops. Notwithstanding their humanitarian qualities, free markets alone will induce farmers to deliver now all their reserve or surplus grain.

I have personal knowledge of where wheat that is being withheld from the market is located. I will cite only a few. One farmer is holding 40,000 bushels of wheat—three crops. Another community served by my own elevator would in a free market, readily supply 60,000 bushels. I am advised of numerous cases where producers are holding surplus quantities, ranging from 500 to 2,500 bushels. In the aggregate, these examples represent a large quantity of grain. Information from my colleagues in the industry indicate that the same situation prevails throughout Kansas where wheat is produced in volume.

Another bountiful crop is in prospect in Kansas. Under normal conditions, surplus wheat would now be moving to market to make room for the coming harvest. But country terminal receipts are negligible. If farmers are given free markets, they would know that daily quotations reflected the true value of their grains and orderly marketing would soon follow. The certificate plan recently inaugurated by the CCC, as judged from my experience, carries no wide approval. At our country elevators only one inquiry had been received concerning its possibilities before Secretary Anderson announced the plan of paying a thirty cents a bushel bonus. This plan will doubtless evoke considerable interest and some marketings but not, in my opinion, to the full extent of reserves. Only free markets will do that and no scheme conceived by government agencies will prove an effective substitute.

Farmers under the group two classification, I mentioned—those who store either on their own premises or in country elevators or both and sell when the market is satisfactory—also carry livestock such as hogs, dairy herds, poultry, range cattle, cattle for feeding, horses and sheep. OPA ceilings have so distorted grain relationships that corn, oats, barley, kafir, bran, shorts, manufactured feeds, cottonseed cake, soy bean meal and other proteins essential to our animal population cannot in many places be obtained legitimately. Group two farmers therefore substitute wheat. Waste results, as wheat cannot serve livestock too effectively, yet it must be used when nothing else is available.

In further depletion of wheat for human consumption we now see trucks, each capable of hauling 400 bushels, going direct to farmers, hauling such wheat as they are able to obtain to Arkansas for feed.

A fleet of fifteen Texas trucks has just started operations in another part of our wheat territory. Upgrading of wheat, liberal weights, relieving the farmer of the work and expense incidental to hauling his own grain to market, cash payments and other considerations carry an appeal and set up competition which we cannot meet under regulations now restricting our operations. A thirty cents per bushel bonus will not deter these activities but will intensify them.

None of these artifices has proven its value—even as a temporary expedient. Removal of all restrictions over free distribution of grain—so that fair play is given to our established and proven trade practices—is, I repeat, in my opinion, the only effective means of bringing about a free flow of grain to help starving Europe and bring about an assured and adequate supply at home.

STATEMENT BY HARRY C. SCHAACK

President, Board of Trade of the City of Chicago
(April 24, 1946)

Mr. Chairman and Gentlemen of the Committee:

For the record my name is Harry C. Schaack. I am President of the Board of Trade of the City of Chicago. It is a privilege for me and an honor to the Association which I represent to have been invited to appear before your honorable body. The testimony which I am about to give I hope shall be accepted as being prompted by a desire to contribute something worth while to this Committee's study of the subject with which it is immediately concerned. I shall attempt to deal with principles rather than personalities.

Before I enter my main discourse, may I briefly outline some of the functions of our Association. Our Association never takes title to a commodity, it does not deal in raw materials or finished products. It buys nothing and it sells nothing. Ours is a market place where under a normal economy buyers and sellers meet and express in dollars and cents their true convictions of the value of a given commodity registered for trading on our Exchange. Our Exchange is not interested in price as such. However, it does disseminate to its members and to the public data of a price determining nature gathered from all four corners of the world. It provides the machinery for recording the prices resulting from transactions made within its confines, and prescribes the rules under which such transactions must be accomplished. We are licensed as a contract market under the Commodity Exchange Act passed by the Congress of the United States.

In its 98 years of existence our Exchange has gathered a wealth of experience and of statistical material that has served well the consuming public and those who use the marketing machinery. During its lifetime many of its members have appeared before Congressional Committees similar to this one for the purpose of giving to these investigating bodies the benefit of their experience and observations. Unfortunately, practical knowledge has frequently been disregarded as old-fashioned, and the experiences gained through practical application have been relegated to limbo for more modern ideas that were based entirely upon the theoretical. It is not my purpose to be recriminatory, but a review of the testimony given by my predecessors before some past Congressional investigating Committees, where the distribution

of the products of the farms were the issues immediately involved, will sustain my contentions.

It has been the contention of my colleagues of the past, and here reiterated, that there is one law, not made by man, that not even Congress can repeal—that is the law of *supply and demand*. Regardless of the attitudes of some theoretical planners there are natural forces that enter into the making of the prices of everything, and to my knowledge history does not record an instance wherein these forces have been successfully defeated. Through circumvention they have at times been temporarily ignored, but not for a prolonged period of time.

Truth, like the law of supply and demand, is a natural force, and we all believe that "truth crushed to earth shall rise again." Through natural evolution and farm experience there has been created a feeding ratio between certain farm products and animals, and by the same experience these products have attained a historical price relationship. These are fundamental and are almost as positive as the sun or the moon. Through planning and through the fixing of prices unrelated to these feeding ratios these natural relationships have become completely distorted. In a free economy this delicate balance is maintained through price. When prices are not permitted to be a full reflection of related values then our economy is upset. Man then resorts to circumvention, and black markets develop.

To stop such vicious practices it becomes necessary to deal with causes and not effects. To deal with causes one must be realistic and face the facts as they are. If the desire for correction is sincere then at times the remedy might be severe. To acknowledge these maladjustments and to attempt to correct them through the application of another uneconomic device is only a further circumvention of a natural force which will lead deeper into the mire of economic chaos.

Through the improper administration of a law designed to hold as nearly as possible during the war period to a fixed economy, we have been taken far afield.

Gains are not accomplished without risks, but when a prudent business man risks his own capital and concludes that the venture is unprofitable, he immediately sets about putting his house in order so as to prevent a further drain on his resources. Not so with the administration of the O.P.A. When ceiling prices were set on raw materials without regard for profits and the prices of end products, in some instances subsidies and rollbacks were employed in a further attempt to circumvent economic processes. Such devices are merely an attempt to gloss over a glaring dislocation in our economy, and serve no real purpose. We are told such devices are necessary to prevent inflation

or an artificial rise in price. I claim they are devices designed to mislead an unsuspecting public into believing the cost of its living is being controlled. Actually, the public is compelled to pay in taxes not only the amount of the subsidy but also the cost of administration. Where, may I ask, is the saving to the individual when either a rising cost of living or an equal amount in taxes comes out of the same pair of pants.

When price is permitted to tell the truth and reflects the natural law of supply and demand, it serves as a natural corrective. When prices get high, production increases. When prices become reactionary, because of lack of demand, production is curtailed, and thus through the observance of the normal experience of history the delicate balance of our economy is again attained.

With ceiling prices we have a managed economy which means fixed prices. Fixed prices may be registered in the normal market places but they do not represent the actual prices at which goods are being exchanged for money. A case in point is corn. The O.P.A. has established a paper ceiling price for the various grades of corn, but it is safe to say that at least 90% of the corn that moves away from the county in which it is grown is moving at the ceiling price plus gratuities in some form. The fixed price does not fully reflect the actual prices paid, and despite the pleadings of experienced people in the trade the facts apparently go unrecognized by those in authority.

Very recently there has been offered to growers who market corn within a given period a bonus of 30 cents per bushel. This is about its actual related worth, or near the price at which it sells in the black market. This death-bed remedy comes at a time when there remains less than 35% of our last year's crop and carry-over. It is not an established price for the new crop, and therefore carries with it no incentive to plant a full acreage to meet the needs which we are told will be heavy for the next eighteen months. Why indeed is corn worth so much for a few days only? Why has not the O.P.A. ceiling price been adjusted heretofore? And why indeed must we be so stubborn about a fixed paper price as to insist on its retention after these few days and once again face black market conditions? A fixed price defies the law of supply and demand, and no country can enjoy in peace time a free economy when prices are not permitted to register the true conditions.

To clear the present state of chaos which has grown up under a device created because of a war necessity will require among other things the elimination of the ceiling prices on the products of the farms now in the process of growth or still to be planted.

The experiences of the past few years are positive proof that man

has not yet arrived at that stage of perfection where he can repeal the economic functions of a natural law.

Gentlemen, I urgently request that you give serious consideration to the arguments favoring the removal of price control over farm commodities regardless of whether or not the price control act is to be extended for any period of time. May I express my appreciation to this Committee for its very kind indulgence.

STATEMENT BY ROBERT C. WOODWORTH

Chairman, National Grain Trade Council
(April 24, 1946)

My name is R. C. Woodworth and my home is in Minneapolis. I am appearing here as chairman of the National Grain Trade Council, a trade association combining 24 grain exchanges and five nation-wide grain and feed trade organizations. My statement is based upon action taken by our Directors, without a dissenting vote.

We represent to you that price control, as it applies to grain and grain products, should be ended as of June 30, 1946.

Our Board reached this policy only recently. As late as two months ago we were not ready to ask for removal of price control, although we knew that it was breaking down disastrously in our trade, and although we felt that its continuance into the post-war period already had set up peace-time faults exceeding its war-time benefits. But we did not then believe it would be possible for Congress to end price control before June 30, 1946, and we hoped that by frank discussions in Washington of the growing chaos in our trade, we could induce a better administration that would carry us until July 1.

Now it is proposed that price control be extended beyond July 1 this year, further into the peace-time period of reconversion. We cannot face that proposal without protest. To explain why we are concerned about this proposed extension of price control over grains and grain products, let me review briefly for you some of our experience during the past months of peace-time administration of the controls.

The trouble started largely with corn. The OPA corn ceiling price was so badly out of line with the prices of competing feed grains, that corn became by far the cheapest grain commodity, as already it had been generally the preferred feed grain. There was a run, severe run, on corn, and its disappearance was too rapid even in view of the large crop of 1945. We asked the OPA time after time to correct this disparity in price: we have never quite understood why they refused to do it. We pointed out to them over many months how black markets in the corn areas were spreading.

We gave illustrations of a barter system that was demoralizing the whole trade, a system where only people and areas with scarce commodities to trade could hope to get the scarce commodity, corn. A group of chairmen of OPA grain and feed advisory committees came to Washington in January and repeated the warnings of the trade price

confusion, and recommended that OPA either make its enforcement effective enough to correct the trouble, or else that they promptly abandon ceiling price controls that could not be enforced. Their answer—and it was a discouraging answer—was in part that Congress had so reduced their appropriations as to make effective enforcement increasingly difficult. In another part, their answer was some sporadic enforcement, but enforcement that did not retard the black markets.

Here was a situation in which we were given little hope that enforcement could correct an admittedly bad condition: a situation where the OPA was unwilling to correct a basic error in the comparative ceiling price of corn. And a situation where the price condition steadily was worsening in the field. I mention corn as an instance: there also were unrealistic prices among some grain products and feed ingredients based upon their comparative values, and which were adding to the trade price confusion and to the continuance of black markets.

We also knew, and tried to show both the OPA and a committee of Congress here, that the feeding ratio which government has assured producers had resulted in a heavier than expected animal population on farms and was choking off supplies of feed grains that were needed by commercial users, or needed by other feeders who had animals but who did not raise their own grain supplies. There was much talk about, and admission of, this situation, but no steps to correct it until the needs of the famine emergency program forced government to admit the very thing that we for so long had been telling them, that the movement of wheat and corn off farms was a matter of price.

Along that line, you will wonder if the announcement of the 30 cents bonus to producers who will market wheat and corn within the coming few weeks is not a solution to our problem. The answer is obvious. The bonus payments are to get corn and wheat into distribution for early supplies abroad, under the famine emergency program. The bonuses were not set up as a correction of the price situation in grains, for the program is only temporary and probably will be ended within the present legal life of OPA. Extension of the price controls over grains and grain products beyond June 30 would promptly at that time bring back the whole train of price problems.

There has been no adequate appreciation of the fact that price and price relationships determine the course both of production and consumption. Economic factors constantly are changing and price relationships must change with them.

It is our belief that America is driving forward toward a free economy, and it is also our belief that we cannot have that free

economy until prices are free. Under present price control conditions the producer, processor and consumer cannot have any clear knowledge of comparative values of commodities. They look only into a fog of unrealistic OPA ceiling prices, more realistic but widely different black market prices, bonus payments to some and subsidies to others, and a growing barter system that is channeling grain into narrower distribution, instead of the wider distribution which is needed for a free economy. They cannot now find honest values in terms of truthful prices in the market places.

Even if we could accept the theory of price controls and other regimentations during peace time—which we cannot—we could not accept it under the present ceiling maladjustment and faulty administration of the OPA. This is peace time, and if we were to accept the theory that federal controls must be kept in force as long as any commodity is scarce, then we would be forced into acceptance of never-ending price regimentation. We cannot accept any such theory, for we want prices that again will tell the truth.

TESTIMONY OF OTIS M. SMITH

Vice President, Hubbard and Palmer Company
Mankato, Minn.

(April 24, 1946)

Mr. Smith: My name is Otis M. Smith. I am Vice President and General Manager of Hubbard & Palmer Company of Mankato, Minnesota. We operate a line of country elevators, 31 in number. We have two terminals and two feed manufacturing plants.

The Chairman: What do you store in your elevators?

Mr. Smith: Our principal business is operating elevators in Minnesota, Iowa and South Dakota. Our principal grain handled is coarse grain—corn, oats, barley, soybeans and flax. There is very little wheat raised in Southern Minnesota, and very little wheat raised in the south half of South Dakota, and there is none raised in Iowa.

The Chairman: You may proceed, if you will, and make such statement as you think is proper for the record in order to advise the committee and the Congress of conditions in this industry as you see them. Tell us what is wrong, and then give us your recommendations for changes.

Mr. Smith: Coming down on the train, I jotted down a few facts as they affect our operations and our company.

I would like to start at the beginning of OPA ceiling prices on cash grain, which was originally set at \$1.16 in Chicago for No. 2 yellow corn; and the comparable grade of No. 2 white oats, say of 36 pound test weight, which is about the average test weight of the crop we have grown the last two years, is 80 cents a bushel. The price of feed barley, which goes for feed and not for malting, is \$1.20 a bushel.

On a per-ton basis, that is \$41.34 a ton for corn. It is \$50 a ton for both oats and barley. On that basis, it immediately would have the tendency of the people dealing in corn above the ceiling price for feed for livestock, because corn, as compared to oats—oats has a value, as growing stock, of 72% of the value of corn, barley is worth about 80% of the value of corn, and wheat is worth about 95% of the value of corn, for fattening livestock.

Eighty percent of the production of corn in the Central West is consumed within the county in which it is grown, largely to feed hogs and cattle and poultry. Now, at a variation of \$8.50 a ton, corn is very much cheaper than oats.

Early in the operation of OPA, I had a long visit with one of the attorneys from the OPA, and he asked me to explain to him why there should be a black market in corn; and I used these figures.

"Well", he said, "those figures were parity prices between 1909 and 1914."

I said, "That is true." I said, "You go back 35 years to find the parity price on different kinds of grain." I said, "I am a good deal older man than you, and 35 years ago do you realize that all the large cities in the United States consumed a tremendous amount of oats? Oats are primarily a horse feed. The large cities, years ago, consumed millions of bushels of oats for horse feed, for transfer wagons, which today are extinct. There are hardly any oats used at all in the large cities, and they go generally for human consumption, except what is fed on the farm to young growing stock. Oats are not a fattening feed for stock on the farm."

He said, "Well, what would you recommend?"

I said, "I would recommend putting the price of corn up to \$50 a ton as a minimum, in line with the price of feed barley and feed oats."

Senator Aiken: What is that a bushel?

Mr. Smith: That would be about 25 cents a bushel above the present price.

Senator Aiken: That is about \$1.45?

Mr. Smith: Yes.

He said, "I think your argument sounds sound", and he said, "I will discuss the matter."

That was the last I ever heard of it.

The black market in corn has gradually grown worse and worse as time went on, and now, with the light crop of distinctly low quality corn, where there is any desirable corn in grade the great part of it is moving in black market channels.

The Chairman: What percent, in your opinion, is moving in black market channels?

Mr. Smith: I would say that 70 to 75 percent of the corn that will grade No. 3 or better is moving in black market channels. Our station purchases at our own country stations will average fully 75 percent below No. 4 corn, because No. 4 corn moves freely in the black market. No. 4 corn may contain 10 percent damage. Naturally, in the feeding of poultry, the poultry raisers cannot use corn that has got any must in it or mold, because it is very dangerous feed for poultry.

Senator Aiken: Does poultry use No. 3 or better?

Mr. Smith: Poultry feeders can use No. 3 or better.

Senator Aiken: They can't use No. 4?

Mr. Smith: They will use No. 4 if the No. 2 or No. 3 is not obtainable.

Take our station purchases, as I was going to say, and I think that 75 percent of the corn we are buying at our country stations is below a No. 4 grade.

Senator Aiken: Below No. 4?

Mr. Smith: Yes. It is either No. 5 yellow or sample grade.

Senator Aiken: That is not very good.

Mr. Smith: The better grade of corn is moving in black market.

Senator Aiken: Well, who is using that?

Mr. Smith: It goes principally to merchant truckers, and is hauled here, there and everywhere.

Senator Aiken: But it is going for feed?

Mr. Smith: It is going for feed, to merchant truckers, generally to small feed manufacturers in Wisconsin and Michigan and even as far south as Texas. Corn is moving by truck as far south as Texas, through Nebraska and Oklahoma to Texas.

Senator Aiken: Is it going into feed straight, or is it going into mixed feed?

Mr. Smith: Mixed feed generally.

Senator Aiken: They couldn't afford it for feeding just as corn?

Mr. Smith: That is right.

Senator Aiken: At the high prices.

Mr. Smith: Yes, Texas is our largest turkey State. They require a great deal of good quality corn, and the result of our experience at our stations is the fact that we buy the distinctly low grade of corn, and that is about all we get. The other is moving in black market.

Senator Aiken: I haven't seen any signs of any grain to feed up our way. We get No. 5 or sample.

Mr. Smith: What is your State?

The Chairman: His State is Vermont.

From your testimony I gained the impression that 70 percent of the corn that is being marketed is being marketed through black market channels. That would put 70 percent of the people in that area in black market operations.

Mr. Smith: Here is the situation. I will cite a particular case. Our agent at Montrose, South Dakota, called me on the telephone just one day last week, and he told me that he had 2,000 bushels of corn

coming in the next day, and he said it would be good corn.

I said, "Fine." I said, "Well, have you bought it?"

"Yes", he says, "the farmer is a relative of mine. I will sure get this corn. It won't get away from me."

He called me back the very next morning and he said, "Well, I am sorry, but I am not going to get that 2,000 bushels of corn."

I said, "What is the matter, didn't you buy it?"

"Yes", he said, "I bought it, but my cousin came in last night and he said, 'I will bring you 2,000 bushels of oats instead of the corn.' I said, 'What did you get for it?' He said, 'I sold it.' I said, 'What did you get for it?' He said, 'Ceiling price', and rather smiled. I said, 'Well, now, off the record, what did you get for that corn?' He says, 'I got \$1.20 a bushel for it in the crib; they shell it.' And he said, 'I want you to weigh it over on your scales.'"

And we have been weighing it all winter long for farmers and seeing the good corn being sold in the black market, and imposing on us to even weigh it for them after they buy it, and we get what they don't want. Now that has been our corn handle this year.

The Chairman: Evidence before this committee tends to show that some 83 percent of the meat products, cattle products in the main, are being handled through the black market. Now you say 70 percent of the corn, in your opinion, is being handled that way?

Mr. Smith: I say 70 percent of the corn that will grade No. 3 or better corn.

The Chairman: Is going to the black market?

Mr. Smith: Yes. In our territory we are handling the distinctly low-quality corn, principally below No. 4 yellow grade, and that is corn that is fit only to go to distilleries or wet processors such as starch manufacturers and trade of that kind.

The Chairman: That shows, then, that the producers of corn are in the back market to a large extent; the consumers are in the black market to a large extent; the producers of livestock are in the black market; the processors and distributors are in the black market; and the consumers are in the black market on meats; and now the Government has gone into the black market on corn. Who is left out in the clear?

Mr. Smith: Well, just what are the feeders going to do?

Senator Aiken: Our witness, I believe that is all, Mr. Chairman.

Mr. Smith: The feeder is not permitted to pay this bonus price. What is he going to do, with a couple of hundred head of cattle in his yard? He is forced to go into the black market.

The Chairman: And if the OPA ceilings and rules and regulations were wiped out, we would go back to the law of supply and demand, and the price would be what the trade would stand, and competition would control the price?

Mr. Smith: Yes. In other words, supply and demand would control the price.

The Chairman: All right, you may proceed.

Mr. Smith: Just as an illustration, when I got on the train the day before yesterday at Mankato, I met a large wheat grower from Havre, Montana, in the smoking car, and sat down beside him, and I started a conversation with him. He said he was on his way, for treatment, to Rochester, Minnesota, to the clinic. I said, "How is your soil condition out there this spring?"

"Well", he said, "it is a little dry, but we had a pretty fair rain Sunday night."

I said, "You have heard about this 30-cent a bushel bonus?"

He said, "Yes, I have heard about it." He said, "I raised 24,000 bushels of wheat last year. I sold two-thirds of it. I still have 8,000 bushels of wheat on my farm. I will give a thousand bushels of wheat to feed the hungry in Europe and China, but I will not sell a damn bushel of grain until I can sell it in the open market. I am tired. How will the rest of the farmers feel about this 30 cents a bushel bonus who have sold their corn and wheat, after repeated press releases from the Department of Agriculture and from the OPA that there would be no change in grain ceiling prices?"

The Chairman: Well, I am having requests now in the nature of claims against the Government to recoup that 30 cents. They claim they sold at the request of the Government on promises made by the Government that the public needed the grain, and now that they have raised the ceiling price, if they had not sold, they could have gotten this increased price now. So they are asking for a refund.

Mr. Smith: And I think they are entitled to it.

The Chairman: They think so.

Mr. Smith: When they have been told repeatedly in the press that there would be no change in the ceiling price on grain, and a man went ahead and marketed his grain at the old ceiling price, and now what is left on the farm can be marketed at 30 cents a bushel above the ceiling price, when you fellows get back home the farmers will talk to you about that.

The Chairman: They don't wait until we get back home; we are hearing from them now.

Mr. Smith: Now you see the attitude of this Montana farmer. He had sold two-thirds of his crop of wheat, and he still had 8,000 bushels on his farm. He said, "I will give a thousand bushels of that to the starving people of Europe and China, but I am damned if I will ever sell another bushel of grain until we have an open market to sell it on."

Senator Aiken: It would be evident that the grower who needed the money most and had to have it and had to sell it early, needed the 30 cents more than the fellow who has been able to hold it.

Mr. Smith: Yes. I think you gentlemen will agree with me that any law, from a city ordinance on up to a Federal statute, that cannot be enforced should be repealed for the good of the morale of the whole country.

The Chairman: Do the people feel as if they are being made law violators in their activities wherein they sell above the ceiling and those who purchase above the ceiling?

Mr. Smith: Naturally so, yes.

The Chairman: Do they feel as if they are losing respect for Government and respect for law, and especially respect for their Congressmen and Senators?

Mr. Smith: I think they will talk to you pretty strongly, when you go home on your next vacation, about the general conduct of the OPA ceiling prices on grain.

The Chairman: Some letters that I have received, if they had been opened, could not go through the mail.

Mr. Smith: I think, gentlemen, that we might have an uneasy market for a time if OPA regulations are removed.

The Chairman: Won't that be true whenever they are removed?

Mr. Smith: That will come anyway when they are removed, and if we raise a wheat crop anywhere near in proportion to the Government figures in their report of April 10th, when the new wheat starts to move, which will be by the 15th of June in Texas and it will gradually work north, I think that the market will settle down—maybe on a higher level than present ceiling prices. It probably will, because everything the farmer is having to buy he is having to pay a higher price for. And he has done a marvelous job all during the war, I take my hat off to him. It has been done by old men and the rest of the family, and the merchants in the village going out and helping him with the farm work; and he has had his machinery tied together with baling wire and everything else to keep going on the farm.

Senator Aiken: You can't get the baling wire now.

Mr. Smith: They pick up the old.

The Chairman: Are there any questions of Mr. Smith? Senator Butler?

Senator Butler: I might say I have known Mr. Smith as a practical grain man for a good many years, and I will read a wire that I received—probably from a man that he knows, we won't name him, but he is one of the scores of feeders in Nebraska that have asked me this question in the last day or two:

"Recent Agricultural Department bonus on corn fails to consider anyone with livestock on feed. Condition critical. Please advise us if there is a legal way to obtain corn for livestock currently."

Mr. Smith: Well, as I said, just what are the feeders going to do who have a bunch of cattle in the yard or are feeding a bunch of hogs?

Senator Butler: I, of course, put the question up to the Stabilization Director this morning, trying to find a way out, because it is a serious and a very critical matter, with tens of thousands of cattle and hogs in the feed-lots in my own area, with scores of thousands of poultry and turkeys scattered throughout all that area that you serve from your Mankato feed mills, wanting to buy feed that is impossible to get. In speaking with someone at the OES this morning, I got an explanation something like this: that the purpose of the 30-cent bonus was to get grain for three different reasons: (1) to get grain for export; (2) to obtain it for delivery to domestic deficit areas—in other words, big poultry producers in areas where the grain itself is not produced, and must depend upon shipments from some other area, will perhaps be taken care of. That was the indication I got.

Senator Aiken: I haven't been able to get any assurance on that.

Senator Butler: I am giving you the explanation that they gave me this morning.

Senator Aiken: When they announced this 30-cent bonus, the announcement stated very clearly, did it not, that it was all for export?

Senator Butler: They told me this morning that it was to accumulate a stock from which they could deliver to deficit areas that put up the biggest appeal for it.

The third reason that they gave me was that it was to discourage the use of grain used in certain programs. I suppose that means they want to chase some of the cattle feeders or hog feeders or poultry feeders out of business. Who are they going to select to keep out and keep in? That is the fallacy of the whole program.

Mr. Smith: I have a letter on my desk, Senator, that I received

a few days ago. He signed himself "Supply Buyer for the National Grange of the State of California." It was a pitiful letter, wanting any kind of mixed feed—corn, oats, or anything that we could ship out there in the way of feed, to California. He said it was just not obtainable. He told me that their members, on account of being short of feed, that their laying hens had become underweight and light, and that a great many of their members were compelled now to sell their laying hens, butcher them and sell them. And they were not fleshy enough to sell as meat chickens, and they were having to go to the canners for chicken soup, and they were realizing very little out of them.

The same condition prevails in your country, Senator Aiken.

Senator Butler: Do you think there is any other way out of the present debacle in which we find ourselves than to legalize the ceiling at 30 cents above the present legal ceiling? Is there any other way that the country can get along except for the Government to come out and legalize that for everybody, to put the hog feeders and the poultry and dairy farmers on the same basis that we are putting the CCC?

Mr. Smith: Well, Senator, where you got your instructions this morning, say you have a couple of hundred head of cattle in the feed yard, and you have a week's supply of grain—and I will venture that in the States of Michigan and Wisconsin, where we ship a lot of feed, I will venture that statement as a fact, that the average retail dealer, small feed mill in those States, hasn't two weeks' supply of any kind of ingredients on hand to sell a farmer. All right, we will say that does go into effect. Just how long do you think it is going to take things to work themselves out for the CCC to get into a position to supply this deficit feed? If we were permitted to sell the grain to the merchant over in Wisconsin or Michigan with a 30-cent a bushel added, we could supply him a carload of corn, because we will get some corn now that is fit for poultry feed with this 30 cents a bushel added. I think the 30 cents will meet the black market prices so that grain will start moving in legitimate channels.

Senator Butler: You think the price should be legalized at the new level?

Mr. Smith: Yes, and permit the people regularly engaged in the business to sell grain on a certificate plan to the buyers at destination.

Senator Butler: Mr. Mirick was here yesterday from Minneapolis, whom you have known very well for many years—

Mr. Smith (Interposing): Yes.

Senator Butler (Continuing):—and he made the statement that he

felt that the ceilings perhaps should be continued—a ceiling, he didn't say which—and that the people should be told now that it is going to be eliminated on October 31st after the new wheat crop gets moving and after the new corn crop is moving. Will you give me your expert opinion on that?

Mr. Smith: Senator, I don't agree with Mr. Mirick for this reason. There are a great many farmers, tenant farmers, with no storage whatever on their farms, who are compelled to sell their grain immediately away from the combine or the threshing machine. If they are compelled to sell that grain at the ceiling price during the months of July, August and September, and during the month of October the ceiling is taken off, and the price advances, the farmer who needs the money most is the farmer who will be penalized.

Senator Butler: With the prospect of a good crop of corn and wheat don't you think that the chance might be that you would be willing to take the price in advance of October 31st, rather than later?

Mr. Smith: I don't think so. I think that our export demand will continue through 1946 and 1947 on a basis that will keep grains on a high level of prices. I don't mean anything like we had after World War I.

Senator Butler (Interposing): The advantage of removing the ceiling as of a date when there are supposed to be ample supplies of wheat and corn, however, does sound more reasonable than to remove it entirely at the end of a crop, such as we are approaching now, with stocks depleted to almost nothing, when, if we removed the ceiling entirely now there is no doubt but what the price would go skyward?

Mr. Smith: Well, for both the farmer and the trade in general, June 30th is the ending of one grain year and the beginning of a new grain year, and it is also the beginning of a new crop movement, and wouldn't it be an injustice to the tenant farmer who is compelled to sell his wheat right away from the combine or the threshing machine, and then as of October 31st have the ceiling prices removed and have a substantial advance in the market? That is just what has happened now on this 30 cents a bushel. The grain that is back on the farm is in the hands of those farmers in the best financial condition, who have been able to hold their grain.

Senator Butler: I think perhaps you have bought more grain direct from country producers than any man I know in the trade.

Mr. Smith: Well, I started in the grain business in February, 1900. I have been actively identified with it ever since, in fact I grew up in it. My father ran country elevators out in Nebraska.

Senator Butler: I think your interpretation of what the psychological effect will be on those who have grain—corn or wheat—to sell on the new crop—that you can perhaps guess as well if not better than anybody else as to what it will be. If there is indecision, like the fellow from Montana, he is just going to sit and wait—

Mr. Smith (Interposing): Well, he is thoroughly disgusted with the administration of OPA.

Senator Butler: Do you think that it is possible for any Government agency, no matter how good their record may have been in the past, to continue a grain program and still have the confidence of the people that they are going to get a square deal? They are willing now to take their medicine in an open market, aren't they?

Mr. Smith: That is right, I agree with you, and I think nine farmers out of ten—I think if you were to walk down the street in any village in southern Minnesota and ask the first ten farmers that you met, "Do you want to see OPA prices continued or do you want to see them wiped out and have a free and open market?"—I think that nine farmers out of ten, the first ten you met walking down the street, will tell you, "I will take my chances, I don't want to continue under OPA regulations".

So I say, the quicker they are removed the better it will be for the trade in general, the better for the economy of the country and the better for the farmer who has done a swell job in the last three years when he was called upon to do it.

TESTIMONY OF CHARLES B. CROFTON

President, New York Produce Exchange
(April 24, 1946)

The Chairman: The next witness is Mr. Crofton. Mr. Crofton, will you state your full name, residence and business for the record?

Mr. Crofton: Charles B. Crofton, President of the New York Produce Exchange, New York City, a grain exchange, Senator, organized 85 years ago. I have been in the grain business for 34 years.

The Chairman: What grains do you handle?

Mr. Crofton: We handle all grains; it is the largest export market in the United States.

The Chairman: Do you handle the actual grains?

Mr. Crofton: We handle no futures.

The Chairman: You mean a spot market?

Mr. Crofton: Yes, in Canadian, and American, domestic grain of all kinds.

The Chairman: You may proceed.

Mr. Crofton: I will make my statement as short as possible.

Our board of directors, at a meeting, decided definitely in favor of the elimination of ceilings on grain. I am of the definite opinion that all ceilings on grain should be eliminated as of June 30, 1946, and more so now than ever in view of the recent Government announcement to pay farmers thirty cents a bushel bonus if their wheat is shipped by May 25th, as I believe that once the farmers receive this bonus they certainly will not sell new crop wheat at a thirty cent discount if ceilings remain, and we will then be forced into the same position we have been in in the past.

I believe the farmers of our country are smart enough to sell their grain when the market reaches a level which suits them, and this selling will not only take care of the demand but will allow the grain to flow into export channels and will take care of our needs at home.

I don't believe that the bonus on corn will increase the movement from farms to any extent, as the farmers are now getting this price or better in the form of sales in the black market.

I hear a lot of people say that if ceilings are taken off prices will sky-rocket. I believe it is more likely that the market will advance but I believe our greatest concern is how much grain prices will decline

if we have two successive large crops and the demand for export grain declines, which is bound to come about when foreign countries again produce normal crops. I believe free movement of grain cannot take place until ceilings are removed.

I want to go back to corn, if I may, to follow up this little discussion that you were having about corn. I personally think that the export of corn should be restricted, that that directive which was issued should be corrected and that the export of corn should be definitely prohibited. If we are going to pay a thirty cent bonus then our people in this country who need the corn should benefit by that. The Argentine still has corn. Our ceiling on corn in Chicago figures \$1.35 seaboard. With this thirty cent increase it will be \$1.65. Argentine corn is selling today at \$1.85 to \$1.90 a bushel. That of course comes back again to supply and demand. The demand is there and the supply is small. If you keep restrictions on corn for the time being, and don't allow a free market in corn, you will see that nobody in this country would get corn, but it would go for export on the basis of \$1.90 a bushel which is equal to \$2.10 a bushel because the freight from the Argentine is higher than from Atlantic points.

Senator Aiken: The Government buys and sells the crop in the Argentine, do they not?

Mr. Crofton: No, that is handled through regular export trade channels.

Senator Aiken: Is there an export duty on corn from the Argentine?

Mr. Crofton: There is an export tax, which doesn't amount to much.

Senator Aiken: What do they mean that the Argentine farmer gets 42 cents, but if you want to buy it you have to pay \$1.55 or \$1.60?

Mr. Crofton: The Argentine farmer sells his wheat to the government, and the government turns it over to the exporter and the exporter handles it. The Argentine farmer is paid the bonus by the government.

Senator Aiken: In addition to the 42 or 43 cents?

Mr. Crofton: Yes, that depends on the government. They have just raised their price to the farmers to move the wheat from the country.

Senator Aiken: I wondered if the government took all of that money out of their own farmers?

Mr. Crofton: That is true, like most governments do.

The Chairman: Government is no respecter of farmers where money is concerned.

Mr. Crofton: Not in those countries. It seems to me that seven or eight years ago wheat in this country was sold for 40 cents a bushel for export, and we were subsidizing it to get rid of it. I don't believe, with this crop looking good as it does now, and if we have another good crop next year, I don't believe that our problem will be any sky-rocketing of prices. Europe is planting again, and Russia, they tell us, has put in the largest acreage they have ever put in. Of course we have a floor there now that we didn't have some years ago, but it is going to cost the government money to keep that floor in and support prices.

The Chairman: What do you recommend that the Congress should do with respect to OPA?

Mr. Crofton: I recommend, Mr. Chairman, that the OPA, as far as grain prices are concerned, or grain products, that the OPA should have nothing to do with them, that they should be directly under the Department of Agriculture in every respect, and I believe ceilings should be taken off grain and we should have a free and open market, and let the price be governed by the law of supply and demand. Any time that any government agency has interfered with the law of supply and demand it has wound up the same way. I have seen wheat go up to \$3.25 a bushel, and down to 40 cents a bushel, and I have seen government agencies sell wheat for less than nothing because they had paid so much storage charges on it, wheat that cost them \$1.25 a bushel.

The Chairman: Are there any questions?

Senator Aiken: Just one. When you say that you would remove the ceilings on all grain July 1st, are you referring to both the 1945 and the 1946 crops?

Mr. Crofton: Well, I would like to see the ceilings on wheat removed on June 30th, at the start of the new crop. I would like to see the ceilings on corn removed in September.

Senator Aiken: You are not advocating removing the ceilings on the 1945 crop?

Mr. Crofton: No; I want to see the ceilings removed on June 30, 1946, when the new crop comes along, and let the market take its course then, and I am convinced, if the market goes up, that you won't have to tell the farmer what to do. He will sell at the right time, and

that will put the market down. The farmers are the smartest men in the country, as I have found out after years in this business.

The Chairman: Well, the fact is that the existing law expires by limitation on June 30th, and unless the Congress enacts some additional legislation OPA and all of its ramifications will come to an end on June 30th of this year. Is that not notice to everyone that controls will go off, or may go off on June 30th?

Mr. Crofton: Yes, that would be.

The Chairman: So that nobody can complain if controls are taken off at that time?

Mr. Crofton: No.

The Chairman: Because they have notice now under the law that unless the Congress does something about it the controls will be off at midnight June 30, 1946.

Mr. Crofton: And that is the grandest thing that could happen to the country, because the farmers would know where they stood, and just as Mr. Smith and other people here have said, here is the farmer, the price is fixed, here is the ceiling and they are told it will not be raised. Then comes an increase of 3 cents in parity, and then comes 30 cents a bushel. How do those farmers feel? If they all had notice that this was finished on June 30th, fine, then everybody is in the same boat and you would get a movement of grain.

Senator Aiken: They wouldn't move much between now and June 30th.

Mr. Crofton: That is right unless, if the wheat is back in the country, then the farmers should sell the wheat and get the thirty cent bonus. But I think that the other farmers who have already sold have a justified complaint.

LETTER FROM W. P. BOMAR

President Bewley Mills, Fort Worth, Texas
(Incorporated in record of Senate Committee on Agriculture)

BEWLEY MILLS

Fort Worth, Texas
April 20, 1946

Honorable Elmer Thomas
United States Senate
Washington, D. C.
Dear Senator:

I understand you will be active in the Senate Agricultural Committee hearing scheduled for Tuesday, April 23rd. I had planned to be in Washington for this hearing, but circumstances over which I have no control make it impossible for me to be present in person. I therefore beg to bring to your attention the distressing situation existing in Oklahoma, Texas and elsewhere. The unavailability of supply of needed feeds for poultry and livestock is causing a disorderly reduction not only in producing stock, but in breeding stock, and when this source of food supply has been reduced, it cannot be quickly re-established, and our domestic economy will therefore be further jeopardized.

All of us are in sympathy and are desirous of cooperating with the humanitarian objective of feeding, as far as possible, the starving peoples of the outside world, which is a practical and not a theoretical undertaking. It is only through a maintained domestic economy that we can render the maximum in help and relief.

Our price controls have been arbitrarily maintained and have forced needed supplies out of the normal channels of distribution and into black markets which are beyond the reach of legitimate trading. Black markets and the enormous amount of money in subsidies have created inflation of the most insidious kind.

The release of price control on agricultural commodities will immediately kill the black market, and with the elimination of all subsidies, price levels under a free and open market would be little, if any, higher than the actual cost occasioned by black markets and subsidies. There

might be some exaggeration during the adjustment, but this would be short-lived, and the cost to the ultimate consumer would be actually his day's grocery bills instead of a down payment for current consumption with a mortgage on posterity for the balance. The housewife has been led to believe that the government is philanthropically paying a part of her grocery bill, when in reality the government is not a thing apart, but merely the custodian of that which belongs to the public directly.

It has been indicated that the government will attempt to support at artificial levels some twenty-two basic commodities. From our farm board experience it is evident that tremendous sums of money will be necessary for such an undertaking, and there is serious doubt that there can be made available such a phenomenal sum to carry on a program for two years after the technical end of war, which is now being considered in progress.

The recent cotton order raising unreasonably the margin to \$50.00 per bale is most hurtful to Oklahoma and Texas, where cotton is and always has been a substantial part of our agricultural production, and is indicative of the caliber and personnel formulating too many of the ideas and procedures which are vital to our domestic economy.

The inexperienced economists serving our unelective bureaucracy have had a field day, and through their miscalculations in planning seem determined to maintain wartime controls long since V-J Day. This has delayed production. Production needs no price control, as the competitive factor has always worked to the advantage of the consumer in getting more for less.

Free and open markets necessarily include the trading in options, so as to afford an opportunity to hedge accumulated supplies and thereby minimize the speculative element for those affording ready markets to our producers.

During the last war, men of experience and success in the various fields of endeavor were called in and given authority to handle in a practical manner the problems of price and distribution. During this—a greater emergency—the top planners have withheld authority from those with experience and have followed blindly the theories of the inexperienced.

With a national indebtedness exceeding our total assets above and below ground, the Congress will have to tighten the purse strings if the credit of this country is to be maintained. The confidence of those holding government securities must be protected by consistent reduction of the national debt, which cannot be accomplished through the continuation of subsidies, deficit spending, and the idea that govern-

ment funds can be had except through the work, sweat, and thrift of our people. Adjustments are necessary after every emergency, and the quicker all artificial controls are removed and the laws of specific gravity and of supply and demand are permitted to work with free and open markets, the quicker will be the opportunity for recovery.

With very best wishes, I am

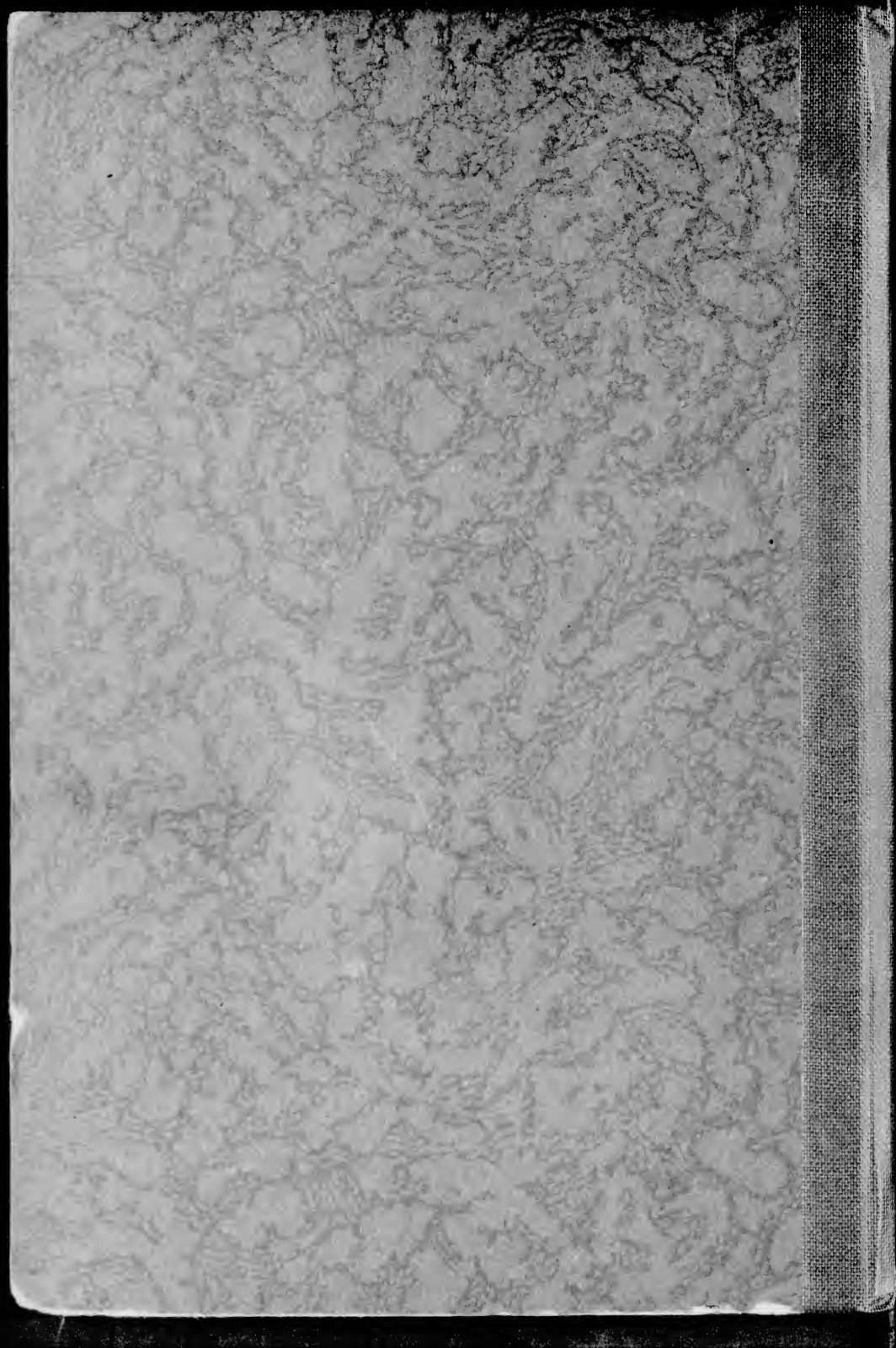
Sincerely,

(Signed) W. P. BOMAR
Pres. & Gen. Mgr.

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